

February 6, 2004

# Economic Outlook



*Speaker of the House J. Dennis Hastert*

## America's Economy Continues to Grow

Every day the American economy continues to grow. In fact, recent estimates by economists suggest that we will see more jobs being created, more investments being made and an increase in consumer spending throughout the year. I am confident that this trend will continue if we make the tax cuts that we passed last year permanent. Last month President Bush said in his State of the Union speech that we must make "tax relief permanent - so families and businesses can plan and invest with confidence." When confidence in the economy goes up, job creation goes up. This year, I will work with President Bush and all of my colleagues in the Congress to make this tax relief permanent – the growth of our economy depends on it.

You can see from the chart below (the U.S. Gross Domestic Product, which is the strongest measurement of economic strength), that our economy experienced a significant boost in the third quarter of last year, the highest it has been since 1984. This is just one example of how our economy has strengthened after the President signed into law the tax relief package last May. Our economy is on the right track, and it is only a matter of time before we see more jobs being created. ***In fact, just last month 112,000 new jobs were created and the unemployment rate dropped to 5.6 percent, the lowest it has been in over two years.***

It is clear that the pro-growth policies of the Republican majority have worked, and will continue to work in the months ahead.

### Highlights:

Speaker Hastert: 1  
America's Economy  
Continues to Grow

Positive Economic 2  
Figures in FY 2003

How Tax Relief 2  
Can Help You

When the Recession 3  
Really Started

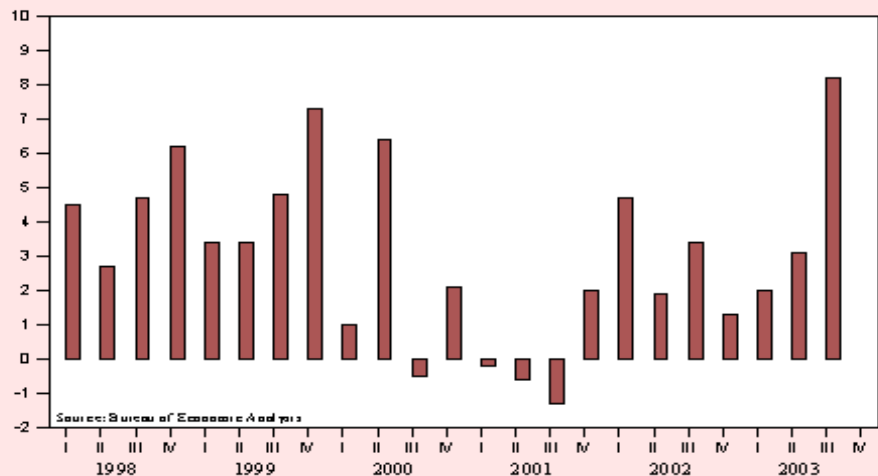
What Economists Are 3  
Predicting in FY 2004

Chairman Nussle 4,5  
Answers Tough  
Questions

Manufacturing 5  
Industry Growing  
Stronger

Additional 6  
Resources

**Gross Domestic Product**  
(Percent change, seasonally adjusted annual rate)



## Positive Economic Figures From 2003

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*"Soon after President Bush signed this tax relief package into law last May, we started seeing the economy grow again."*

The U.S. economy is still recovering from the devastating attacks of 9/11, the burst of the tech bubble, and the impact corporate malfeasance had on the stock market. Our economy was hit pretty hard, and this was very evident in the beginning of 2003. With the war going on in Afghanistan and just starting in Iraq, families across America were more cautious with how they spent their money.

The only way Congress could help our economy grow was if we worked with President Bush to pass a pro-growth, pro-jobs tax relief package. This package, which lowered taxes for all tax-paying Americans, reduced the marriage penalty, doubled the child tax credit, gave small business owners incentives to hire more employees, and phased out

the death tax. Soon after President Bush signed this tax relief package into law last May, we started seeing the economy grow again. By the third quarter of 2003, we saw a remarkable difference in the numbers alone. *In fact, the U.S. economy expanded at an annual rate of 8.2 percent in the third quarter, the highest it has been since 1984, the unemployment rate was at 5.7 percent in December, the lowest it's been since the 1980's, the homeownership rate skyrocketed to its highest ever, and stock market wealth was up more than \$3 trillion. Furthermore, over 250,000 new jobs were created in the last few months of 2003.*

These positive numbers are good indicators that our economy is growing, and will continue to grow because the tax relief package put more hard earned money in the hands of hard working Americans.

## EXAMPLES OF HOW THE TAX RELIEF PACKAGE WILL HELP YOU THIS YEAR

**Increase in 401(k), 403(b) and 457 Plan Contribution Limits:** The limit on the amount that an individual can contribute on a salary reduction basis to a 401(k), 403(b) and 457 plan has been increased from \$11,000 to \$12,000.

**Reduction of Individual Tax Rates:** Marginal tax rates above 15% have been reduced across-the-board by two points to 25%, 28%, and 33%. The top rate is reduced to 35%, a drop of 3.6 percentage points.

**Increase in the Child Tax Credit:** The Child Tax Credit has been raised to \$1,000 per child, an increase of \$400. Most taxpayers using the credit received an advance payment of

this increase during 2003 and must subtract that advance when figuring their 2003 credit amount.

**Increase in Health Insurance Deductions for Self-Employed Persons:** The deduction for health insurance premiums for self-employed persons has increased from 70% of the cost of the policy to 100%. The deduction can be taken each month up to the amount of their earned income from the business under which the insurance plan was established.

**Increase in the Adoption Credit:** The maximum Adoption Credit has been increased to \$10,160 and the beginning of the phase out range is

now \$152,390 of modified adjusted gross income. The maximum credit applies to expenses related to the adoption, including court fees and attorney fees.

**Marriage Penalty Tax Relief:** The standard deduction for joint filers and qualified widows has been increased by \$1,650 to \$9,500 - twice that of a single filer or a married person filing separately.

**Increase in the Child and Dependent Care Credit:** Up to \$3,000 of expenses (or \$6,000 for two or more qualifying persons) may be used to calculate the Child and Dependent Care Credit.

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## !! Recent News: Economists Say Recession Started Under Clinton Administration

The Washington Post recently reported that, "The last recession may have started in the last months of the Clinton Administration." According to a panel of economists who monitor the nation's recessions, our economy suffered major losses, including a major drop in U.S. employment in November and December of 2000.

While many like to say that the economy began to suffer when President

Bush was getting sworn in, the numbers tell a different story. In fact, the pro-growth policies of the current Administration have helped by getting America out of the recession that began under the Clinton Administration.



## What Economists Are Predicting In 2004

The Conference Board, which is a group of over 2,500 corporate members in 66 countries, has predicted a strong economic forecast for 2004. Because of continued profits in business that started last year, The Conference Board predicts a growing trend of continued consumer spending, which will lead to even more growth in business. This growth will then continue the rebound in the labor market that began last year. Increased production and more consumer spending

will help increase U.S. GDP. In fact, The Conference Board predicted an annual growth of 5.7%, which would be the largest growth in the GDP in 20 years.

Forecasts for job creation in 2004 look very promising. A chief economist at Moody's Investors Service told Reuters "The declining trend of initial state jobless claims reinforces expectations of an eventual substantial upturn by payrolls employment." (January 29, 2003). The Wall

Street Journal, considered by many to have its finger on the pulse of our nation's economy, surveyed 54 economists who said that the U.S. unemployment numbers will decline to 5.5% by November 2004. (January 2, 2004). Holding true, that would be the lowest unemployment level since September 11, 2001.

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*"With unemployment numbers in a three year low - forecasts for job creation in 2004 look very promising."*



*"Chairman Nussle is a strong advocate of making provisions of the 2003 tax relief permanent, and has suggested many times that if this does happen, the U.S economy will continue to grow, and the deficits will shrink."*

## Chairman Nussle Answers Some Tough Questions

*Chairman Nussle has long been regarded as a leading Congressional expert on budget issues and the federal budget process. His tireless efforts to limit federal spending, reduce the tax burden, and pay down the national debt led his colleagues to elect him chairman of the House Budget Committee in 2001.*

*Chairman Nussle is a strong advocate of making provisions of the 2003 tax relief package permanent, and has suggested many times that if this does happen, the U.S economy will continue to grow, and*

*the deficits will shrink.*

*Recently, Chairman Nussle answered some tough questions about our nation's deficit. Here is what he had to say:*

*Q: If the Republican Party is supposed to be the party of fiscal discipline, how do you explain amassing these huge deficits under the Republican watch?*

**A:** We've increased spending in response to many costly defense and homeland-security related demands, and to help bolster the economy. We

did what we had to do, and that meant borrowing money in order to protect the country, strengthen the economy, and help Americans get back to work.

Now is the time to look at where we are, and to determine what steps we need to take to get our fiscal house back in order and control spending. We do this by following the common-sense model of continuing to promote economic and job growth, and controlling spending.

**Q:** *Did the tax cuts cause these deficits?*

**A:** No. These are *spending-driven* deficits. Since 2001, our country has faced an extraordinary set of challenges, ranging from the economic recession to the wars in Iraq and Afghanistan. These circumstances forced Congress and the President to stretch resources and improvise budgetary procedures.

Again, we did what we had to do, and that meant borrowing money in order to protect the country and strengthen the economy.

And the tax relief measures we passed are working exactly as they were intended. Had we not passed the tax relief, the recession would have been deeper and lasted longer.

**Q:** *Now that the economy is getting better, shouldn't we revoke the tax cuts to help with the deficit?*

**A:** No. The tax relief measures we passed are working. The tax cuts significantly boosted real GDP growth recently, generating the fastest growth in 20 years. And without the tax cuts, 2

million more workers would have lost their job and the unemployment rate would be rising to 7.5 percent or more rather than declining from 6.3 percent last June, to 5.7 percent in December.

The purpose of the tax relief measures is to promote *sustained* growth in the economy, and jobs.

Raising taxes would be the *worst* thing we could do in respect to the rebounding economy and job market. Individuals and business must be able to plan, and to count on the lower tax burden for this economy to continue to grow.

**Q:** *Why do we continue to keep spending so much when we have such big deficits?*

**A:** We slightly increased spending in order to respond to the myriad extraordinary circumstances of the past few years - from protecting our homeland and fighting terrorism at home and abroad, to helping bolster the depressed economy and promote job growth. We did what we had to do, and that meant borrowing money in order to do it.

But at this point, the immediate, necessary spending we've had to do as a result of "emergency" circumstances is now largely known, and can be worked into our regular budget planning.

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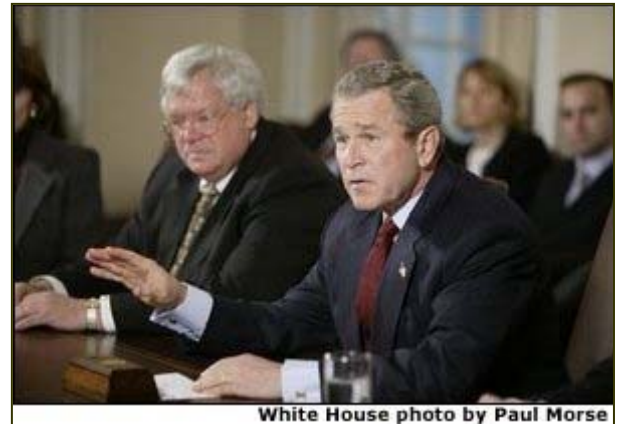
steps we need to take to get our fiscal house back in order. I believe we do this by following the common-sense model of continuing to promote economic and job growth, and *controlling* spending.

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On February 2, the President sent Congress his budget for FY 2005. Republicans in the Congress, including Budget Chairman Nussle, will work with the President to make sure we hold back spending and cut the deficit in half over five years.

For more information about the President's budget, go to the Office of Management and Budget website:

<http://www.whitehouse.gov/omb/budget/fy2005/>



President Bush announced that he will keep spending below a 4% growth rate in his FY 2005 budget in order to cut the deficit in half in five years.

## Manufacturing Industry Growing Stronger

President Bush and Commerce Secretary Don Evans recently laid out a plan that will address the concerns of those who work in the manufacturing industry. By doing so, Secretary Evans held many roundtable discussions around the country with folks in the industry and came up with several recommendations that will help this sector get back on its feet and most importantly, create and secure more jobs. Some of the recommendations include creating a fair international playing field with America's trading partners; reducing high energy and healthcare costs by

passing a comprehensive energy package and Medicare liability reform; cutting back on unnecessary regulations that inhibit productivity; and creating education initiatives so more skilled workers could be hired to meet the needs and demands of an ever changing high-tech marketplace.

Another way we can help the manufacturing industry is if we make the recent tax cuts permanent so that manufacturers can attract capital and invest in the future with confidence.

The Congress has, and will continue to work with the President to make sure

these recommendations turn into reality.

### **!!GOOD NEWS ABOUT MANUFACTURING:**

Reuters News Service reported on February 2, 2004 that US factory growth is at a 20-year high in January report:

"U.S. manufacturing growth powered to a 20-year high for a third straight month in January..."

"The Institute for Supply Management said its manufacturing index rose to 63.6 in January -- the highest since late 1983 -- from a revised reading of 63.4 the prior month."

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## **RESOURCES TO GATHER INFORMATION ABOUT U.S. ECONOMY**

Office of the Speaker: [www.speaker.gov](http://www.speaker.gov)

The White House: <http://www.whitehouse.gov/infocus/economy/index.html>

Office of Management and Budget: <http://www.whitehouse.gov/omb/budget/fy2005/>

House Budget Committee: <http://www.house.gov/budget/>

Senate Budget Committee: <http://www.senate.gov/~budget/republican/>

House Committee on Ways and Means: <http://waysandmeans.house.gov/>

